No. 14701.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

KIMBERLY CORPORATION, a corporation,

Appellant,

vs.

HARTLEY PEN COMPANY, a corporation, LINDY PEN CO., INC., a corporation, and SIDNEY LINDEN, individually and doing business as ADAMS-LINDEN CO.,

Appellees.

Appeal From the United States District Court for the Southern District of California, Central Division.

REPLY BRIEF OF INTERVENER-APPELLANT KIMBERLY CORPORATION.

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REPLY BRIEF OF INTERVENER-APPELLANT KIMBERLY CORPORATION.

Intervener-appellant will answer appellee's brief in the order in which the matters are set forth therein. In the interest of clarity, this brief will be addressed to appellee's arguments under the headings as they are identified in its brief.

Appellee's Introduction.

In its introduction appellee states that intervener-appellant's opening brief does not comply with Rule 18(d) of this Court because of its alleged failure to state "as particularly as may be wherein the findings of fact and conclusions of law are alleged to be erroneous."

Rule 18(d) does not require that the Findings of Fact be identified by number. The Findings of Fact which intervener-appellant challenges were fully and thoroughly identified in the Specification of Errors. In some instances the Specification of Errors asserted that no findings were made which intervener-appellant believes should have been made; hence, there was no finding to identify.

APPELLEE'S STATEMENT OF THE CASE.

Subheading "A."

We should like to point out that neither plaintiff's Motion to Dismiss, intervener-appellant's Complaint, nor its Motion for Summary Judgment referred to on page 3 in appellee's brief are part of the record on appeal in this case. In plaintiff's Answer to Intervener's First Amended Complaint there appears the allegation [R. 38] that the claim of intervener-appellant is barred by statutes of limitations of the State of California. Other than this general reference, no particular Statutes of Limitations are identified.

Subheading "B."

Appellee fails to recognize that the only issue in this case is whether intervener-appellant's claim is barred by laches. As we shall hereinafter point out, the Statutes of Limitations are applicable in equity cases only by analogy and are not necessarily determinative of the issue of laches.

Subheading "C."

Under this subheading entitled "The Facts" the appellee summarizes the findings of the trial court supplemented by comments. Since these findings include those that are challenged on this appeal, their reiteration at this place is unimportant. It is not necessary at this point to discuss the extraneous comments made by appellee, the pertinent issues are treated in this brief hereinafter.

APPELLEE'S ARGUMENT.

Subheading "A."

In answer to subdivision "A" of appellee's Point IV, we wish to state that intervener-appellant, of course, does not challenge the fact that it did not file its action until January 15, 1954 since it was not until December of 1953 that it learned of the facts upon which its claim is based.

Appellee again erroneously asserts that the California Statutes of Limitations would have barred intervener-appellant's claim in any event. As we have heretofore and shall hereafter note, the Statutes of Limitations are not controlling in an equity case involving the issue of laches. Furthermore, even if the California Statutes of Limitations were applicable, we must point out that since intervener-appellant's action is based upon fraud, the running of the statute would not have commenced until the "discovery" of the fraud which intervener-appellant alleges did not occur until December of 1953.

Subheading "B."

Since this appeal presents no challenge to the jurisdiction of the Federal District Court, we see no point in the argument set forth under this subheading "B."

Subheadings "C," "D" and "J."

Appellee, recognizing the precarious position in which it finds itself by reason of not having met its burden in showing that appellee Hartley Pen Company was prejudiced by reason of the purported delay of intervener-appellant in instituting its action, now seeks refuge in an attack upon the judgment in its favor. Appellee, under subheading "C," now contends that the District Court should have decided the case not on the basis of laches, but on the basis of the applicable Statutes of Limitations

of the State of California. Had the District Court decided the case on the basis of the applicability of the California Statutes of Limitations, argues appellee, then it would not have been compelled to meet the burden of showing prejudice to it by the bringing of intervener-appellant's action, which, of course, it has utterly failed to do.

The following discussion on this matter of prejudice is applicable not only to appellee's subheading "C," but as well to subheading "J," page 28 *et seq.* Subheading "J" asserts that the existence of laches is supported by the record.

The California law bears out intervener-appellant's assertion that absent any showing of prejudice, the defense of laches in an equity case cannot prevail. The California Statutes of Limitations are not controlling in this regard. In support of this assertion, intervenor-appellant in its opening brief has referred to controlling cases on this point. Especially is a showing of prejudice required where the action is based on fraud.

Sidebotham v. Robison, 216 F. 2d 816, decided by this Honorable Court was based on fraud. This Honorable Court therein pointed out that it applied the law of the State of California (p. 823). This case holds that in addition to mere lapse of time, it is necessary to show prejudice resulting from the delay (p. 827). This Honorable Court cited *Field et al. v. Bank of America Nat. Trust & Savings Association,* 100 Cal. App. 2d 311, 223 P. 2d 514. That California decision, as well as many others, hold that in passing upon the defense of laches, regard will be had to circumstances which justify the delay, to the nature of the case and the relief demanded, and to the question whether the rights of the defendant, or of other persons, have been prejudiced by such delay. This California case also was found on *fraud,* and is similar to the situation found herein.

That this Honorable Court stated the established rule in *Sidebotham v. Robison, supra,* in deciding that prejudice must be shown in order to justify the defense of laches. Attention is respectfully again directed to *In re Harootenian's Estate,* 38 Cal. 2d 242, discussed on page 47 of intervener-appellant's opening brief.

The laws of the State of California fully substantiate the position of intervener-appellant that *prejudice must be shown* to substantiate the defense of laches.

Of further interest is *Holmberg, et al. v. Armbrecht, et al.,* 327 U. S. 392, 66 S. Ct. 582. This case reasserts that the law of the *state* controls; and from the foregoing it is amply clear that the California law bears out intervener-appellant's contentions.

In discussing generally such a defense, and especially a case founded upon fraud, the Court, in *Holmberg, et al. v. Armbrecht, et al.,* at page 396, states:

> "Equity eschews mechanical rules; it depends on flexibility. *Equity has acted on the principle that 'laches is not, like limitation, a mere matter of time; but principally a question of the inequity of permitting the claim to be enforced,—an inequity founded upon some change in the condition or relations of the property or the parties.'* * * * And so, a suit in equity may lie though a comparable cause of action at law would be barred. If want of due diligence by the plaintiff may make it unfair to pursue the defendant, fraudulent conduct on the part of the defendant may have prevented the plaintiff from being diligent and may make it unfair to bar appeal to equity because of mere lapse of time.
>
> "Equity will not lend itself to such fraud and historically has relieved from it. It bars a defendant from setting up such a fraudulent defense, as it interposes against other forms of fraud. And so this

Court long ago adopted as its own the old chancery rule that where a plaintiff has been injured by fraud and 'remains in ignorance of it without any fault or want of diligence or care on his part, the bar of the statute does not begin to run until the fraud is discovered, though there be no special circumstances or efforts on the part of the party committing the fraud to conceal it from the knowledge of the other party.'" (Italics ours.)

Although there is no doubt that the burden is upon appellee to show prejudice due to delay, the fact that appellee assumed the burden of proof at the trial precludes it from now urging this point. See *Pacific Portland Cement Co. v. Food Machinery & Chemical Corporation,* 178 F. 2d 541 (C. A. 9), particularly page 547.

Failure on the part of the plaintiff-appellee to introduce any evidence whatever on the question of prejudice is fatal to its defense of laches, as shown by the latest controlling decisions applying California law to cases involving fraud. There is a satisfactory showing in this record why the discovery of the fraud did not occur until December, 1953.

Appellee on page 30 of its brief again recognizing the fact that it has failed to meet the burden of showing that it has been prejudiced by passage of time involved in the assertion of intervener-appellant's claim, and in utter disregard for the established rules of practice on appeal, goes on an excursion completely out of the record in an attempt to bring before this Honorable Court conjectures as to how appellee may have been prejudiced. We submit that there is no support in the record for the matters set forth on this page of appellee's answering brief.

Subheading "E."

In its opening brief, intervener-appellant has set forth fully the reasons for its contentions that the findings of the lower court are clearly erroneous on view of the evidence upon which they must rest for their support, thus requiring a reversal of the trial court's judgment under Rule 52(a) of the Federal Rules of Civil Procedure. No purpose would be served by repeating these arguments at this point.

Subheading "F."

Appellee's argument under this heading "F" is devoted principally to references to the findings made by the court. No one, of course, denies that certain findings were made. The question before this Court is whether the findings of the court and the judgment entered thereon are not clearly erroneous in the light of the "entire evidence" adduced in the case. Notwithstanding appellee's statement to the contrary, the record is clear that intervener-appellant has interposed effective challenges to all of the material findings made by the trial court.

At the middle of page 19 of appellee's brief certain testimony of Mr. Taube has been taken out of context with selective emphasis and with the usual distortions resulting from that process. Mr. Taube in his deposition and in his testimony at the trial made it very clear that he did not feel that Sears and Schrader should be obligated to assign *future* inventions conceived by them particularly since they were entering into a new and competitive business. But as to any *past* inventions, he relied upon the assurance from Sears that steps had been taken to patent all such inventions as were patentable [R. 150,

255, 260, 264]. In Mr. Taube's testimony set forth at page 19 of appellee's brief, Mr. Taube merely points out that since the form of assignment purportedly presented to Sears and Schrader covered both *past and future* inventions, he could readily understand why Sears and Schrader would refuse to sign it in that form. This testimony taken out of context is presented to this Court as evidence of the fact that intervener-appellant as early as May of 1947 knew that Sears and Schrader were *unqualifiedly* refusing to assign inventions made by them during their employment, impliedly on the basis that they were not obliged to do so. Mr. Taube and all the other representatives of intervener-appellant have consistently and emphatically denied that at any time were they informed or did they know that Sears and Schrader were refusing to assign patent rights relating to inventions *theretofore* conceived while in intervener-appellant's employ upon the basis that they were not obligated to do so.

Subheading "G."

The arguments made by appellee under its Point "G" is utterly incredible in the face of the record in this case. Appellee asserts that intervener-appellant has not challenged Finding XIX [R. 53] of the trial court relating to the purported receipt of direct and actual notice of the issuance and contents of United States Letters Patent No. 2,498,009. We respectfully, although we believe needlessly, refer this Honorable Court to intervener-appellant's opening brief at pages 24 and 34 where Finding XIX and the testimony of Sears and Croan relating thereto are subjected to very vigorous challenge indeed.

Subheading "H."

On page 24 of appellee's brief and as a part of its argument under subheading "H," appellee cites several cases in support of its assertion that intervener-appellant had constructive notice of the issuance of the patent and the pendency of the application.

In *Wine Ry. Appliance Co. v. Enterprise Ry. Equip. Co.*, 297 U. S. 387 the infringer of a patent attempted to avoid an accounting on the basis that it was not given notice of the issuance of the patent by the patentee. The Supreme Court held it is sufficient that the patent issued, and therefore the infringer was liable for infringing acts even before it obtained actual notice of the issuance of the patent. Obviously this case has nothing to do with a duty to investigate public records in order to discover a fraud.

Such a constructive notice by issuance of a patent is *unavailable* against an *infringer,* if the owner of a patent is actually manufacturing under the patent. In that event, the provisions of Section 287 of Title 35, United States Code, are pertinent. This section includes:

> ". . . no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only from infringement occurring after such notice."

Thus, the United States Code itself shows that the public patent records may not be constructive notice *even against an infringer.* If public patent records are not constructive notice against a person for whose benefit

the public records are *primarily* made, obviously they are not at all constructive notice to a *defrauded* party, since public records of patents are not even remotely designed to inform defrauded persons.

In *Sontag Chain Stores Co. v. National Nut Co.,* 310 U. S. 281, the patent sued upon was a *reissue* patent. A defense often urged against such reissued patents is that of "intervening rights," where the defendant had begun manufacturing an article *after* the original patent issued, but *before* it was reissued. The doctrine is applicable where the article infringes the reissued patent, but *not* the original patent. Such a defense of "intervening rights" was made in the *Sontag* case. The Supreme Court decided that this specific defense could be made good even if the infringer did not know of the issuance of the original patent.

Accordingly, the matter of constructive notice by the issuance of the patent is hemmed in, narrowed and restricted by these decisions. And it is clear from these decisions that sometimes (and only sometimes) the issuance of a patent is constructive notice; and at other times, it definitely is *not,* as in this case. It is abundantly clear that the effect of public records as "notice to the world" or "constructive notice" is dependent upon the circumstances; in fraud actions with the factual situation here involved, there is no constructive notice since there is no duty to investigate these records.

The plaintiff-appellee also asserts that the recording of the assignment of the *application* on November 12, 1949 (prior to the issuance of the patent) is constructive notice, and would therefore start the running of the

statute. The same cases discussed hereinabove regarding public records are in point. There was no *duty* here to search the public records; and furthermore since the perpetrators of the fraud were in a position of trust and confidence, the party defrauded did not have to pursue such avenues of knowledge.

But aside from this, the position of plaintiff-appellee is untenable for still another reason, now to be discussed.

Plaintiff-appellee relies heavily upon *Teall v. Schroder,* 158 U. S. 172. In that case Teall's heirs brought suit against a large number of *bona fide* purchasers, in an effort to obtain a decree to have real property reconveyed to them, thirty-four years after Teall had died. Any recordable deed or conveyance involving such real property includes a definite, complete, and exact delineation and description of the property.

The heirs stated in their complaint that the attorney in fact of Teall had fraudulently laid claim to the property, and had transferred title to the present owners or to the predecessors of the present owners. It was obviously the *duty* of the heirs to investigate title of all the property held by Teall, and public records on file would disclose the *exact* property conveyed by the instrument.

The assignment of a patent *application* does *not* include a description of the invention; the application is merely identified by serial number and filing date or equivalent data. No inkling is available from a search or examination of these records as to the *identity or scope* of the invention claimed in the application. Note Rule 331 of the Rules of Practice of the United States Patent Office, which asserts that in order to be recordable, the instru-

ment relating to an application should identify the application by serial number and filing date. The name of the inventor and title of the invention as stated in the application should also be given. Furthermore, this record is silent as to the contents of the assignment.

The assignment from Schrader and Sears to Hartley Pen Company qualifies under this Patent Office rule, but it ordinarily would not, as in recorded conveyance of real property, give any description of the invention itself. In fact, the rules of the Patent Office preclude access to the application files; and such rules have been effective for many years. Present Rule 14(a) reads as follows:

> "Pending applications are preserved in secrecy. No information will be given by the Office respecting the filing by any particular person of an application for a patent, the pendency of any particular case before it, or the subject matter of any particular application, nor will access be given to or copies furnished of any pending application or papers relating thereto, without written authority of the applicant, or his assignees or attorney or agent, unless it shall be necessary to the proper conduct of business before the Office or as provided by these rules."

The availability of the assignment recorded on November 12, 1949, of the *pending* application of Sears and Schrader is sterile and valueless to determine what, in fact, was the invention described and claimed in that application. Accordingly, *Teall v. Schroder* at best stands for the proposition that when, and only when, upon inspection of a public record of conveyances, *the fraud is actually discovered with respect to that property,* notice *is* imputed to the interested parties.

There is a further important distinction between *Teall v. Schroder* and the present case. While Teall or Teall's heirs did not actually know of the public records, there was at the time of the commission of the fraud at least *actual knowledge* that the property existed. In the present case, not only did intervener-appellant have no actual knowledge of the assignment records, but furthermore had no actual knowledge of the existence of the patent application made the subject of the assignment.

This difference clearly emphasizes why a duty may have existed in *Teall v. Schroder* and none existed in the present case.

Still further, it must be remembered that the decision in *Teall v. Schroder* protected three hundred and thirty-seven *innocent* defendants in possession.

Appellee, on page 25 of its brief, asserts that since Sears and Schrader terminated their employment with intervener-appellant in May of 1947, whatever confidential relationship, if any, existed ended at that time and with it the consequent legal implications arising therefrom. A quick answer to this misstatement of the law is that the legal implications arising from a confidential relationship necessarily survive the period of the relationship. See *Hobart v. Hobart Estate Co.*, 159 P. 2d 958, 26 Cal. 2d 412; *Anglo-California Nat. Bank of San Francisco v. Lazard* (C. C. A. 9), 106 F. 2d 693. Both of these cases were discussed in intervener-appellant's opening brief, pages 21, 22.

On page 25 of its brief appellee also asserts that Mr. Miketta as early as May, 1951 advised intervener-appellant of the issuance of the patent. This assertion has no

basis whatever in the finding although the appellee had prepared them. Accordingly, this Honorable Court should ignore these allegations.

Subheading "I."

Under this subheading "I", appellee introduces an issue which was no part of the trial in the District Court and is not before this Court on review. This being an equity action, the trial in the court below was limited to the issues raised by the affirmative defense of laches. The defense of laches is, of course, a defense in the nature of a plea of confession and avoidance. For the purpose of this sole issue tried by the lower court, actionable fraud was necessarily presumed; the defense being that even assuming the existence of fraud that intervener-appellant's action was barred by laches.

The assertion that intervener-appellant does not contend that any misrepresentations were made by Schrader is meaningless. Schrader participated with Sears in the consummation of the fraud which intervener-appellant asserts was perpetrated upon it and shared in the benefits thereof.

Subheading "K."

It is difficult to conceive a more relevant or material issue than that relating to the question as to whether intervener-appellant had either actual or constructive knowledge of the purported repudiation of Sears' and Schrader's obligation to assign inventions and the fraud which it alleges was perpetrated upon it. Mr. Miketta was the patent attorney for intervener-appellant and dealt with Sears and Schrader with regard to the matter of their assigning patent rights to intervener-appellant.

Under the circumstances Mr. Miketta would have been a conduit for both actual and constructive notice to intervener-appellant. The failure of the trial court to make specific findings on Mr. Miketta does not eliminate this fact as very material and relevant fact issues in this case.

Mr. Miketta appeared as a witness on behalf of appellee and testified to certain rather nebulous and vague discussions purportedly had by him and representatives of intervener-appellant relating to a purported arrangement wherein intervener-appellant was to receive shoprights in lieu of a general assignment of inventions and patent rights which it was then demanding. The executives and representatives of intervener-appellant with whom these conversations were supposed to have been had, emphatically denied any such conversations or that they had agreed or knew anything about this purported arrangement for shoprights in lieu of general patent assignments as testified to by Mr. Miketta.

Mr. Miketta testified as a witness in the case. We submit that counsel for intervener-appellant have the right, and in fact it is their duty, to subject Mr. Miketta's testimony to the same analysis and criticism as they would the testimony of any other witness.

Appellee contends that on the date that Sears and Schrader consulted with Mr. Miketta (June 9, 1947), there was no conflict of interest between Sears and Schrader and intervener-appellant, and that therefore Mr. Miketta was free to prepare and file the patent application as any strange patent counsel would be. This assertion is predicated upon the purported arrangement arrived at between Sears and Schrader in which intervener-appellant

is supposed to have accepted shoprights in lieu of the general assignment of rights which they were demanding. But intervener-appellant emphatically denies that any such arrangement had been worked out or that they had in any way relinquished to Sears and Schrader the general inventions and patent rights that they were entitled to. Absent this purported relinquishment of inventions and patent rights by intervener-appellant could there be any doubt that on June 9, 1947 intervener-appellant was the owner of all inventions made by Sears and Schrader in the course of their employment?

We believe it is too well settled to require extensive argument that where an employee is assigned the duty of developing and construing machines and where such employee in the course of his employment, on his employer's time and at his employer's expense conceives and develops an invention, that invention is the property of the employer. See *Standard Parts Co. v. Peck,* 264 U. S. 52; California Labor Code, Sec. 2860.) Mr. Sears has freely admitted that the invention embodied in the patent in suit was conceived by him and Schrader while construing a swedging machine on their employer's time and at their employer's expense. [See Finding XIII, R. 47, 100.]

Nowhere in the record, except for the purported arrangement testified to by Mr. Sears and Mr. Miketta, is there any evidence, documentary or otherwise to establish that intervener-appellant affirmatively relinquished any of its rights to Sears' and Schrader's inventions. We respectfully submit therefore that on June 9, 1947 when Mr. Miketta undertook to file an application for Letters Patent covering the invention involved in this case that

he was dealing with property rights owned by intervener-appellant.

On page 32 of appellee's brief, appellee again distorts the statements made in intervener-appellant's brief on page 16. There is no concession of any sort that Mr. Miketta was under no obligation to disclose to intervener-appellant the fact that Sears and Schrader had filed the patent application. Under Mr. Miketta's circumstances, it was understandable why he would not do so, but this, of course, does not relieve him from any obligation.

CONCLUSION.

Appellee's conclusion, we believe, unwittingly gives the explanation for the conduct of Sears and Schrader in appropriating intervener-appellant's invention and in the position which they have taken in this case. Appellee asserts that since the stockholders of intervener-appellant had entered into an agreement to sell all of the shares of the corporation to Eversharp, Inc., that therefore intervener-appellant had no real interest in the matter of preserving its patent rights. It should be recalled, first of all, that while there was a first option agreement executed in May of 1947, this agreement was superseded by the final option agreement which was not executed until *June 14, 1947*—nine (9) days after June 5th, on which date the so-called shopright instruments or contracts were executed purportedly in lieu of patent rights.

At the time that the negotiations between intervener-appellant and Sears and Schrader with respect to assignment of patent rights were in progress, culminating in what appellee purports to be the arrangement concluded on June 5, 1947, no final option agreement had been

executed between the stockholders of intervener-appellant and Eversharp, Inc. Furthermore, the agreement, when executed on June 14, 1947, was merely an option agreement. Intervener-appellant had no assurance whatever that this option would be exercised by Eversharp, Inc.; and as a matter of fact, as it turned out, it was never exercised and no final deal was consummated. While it may be true that the stockholders of intervener-appellant were anxious to facilitate the closing of the transaction with Eversharp, Inc.; it is absurd to assert that intervener-appellant, on the mere expectancy that its shareholder might dispose of their stockholding interests, would loosely fritter away potentially valuable patent rights in the manner contended for by appellee.

Appellee's conclusion points to the real explanation for Sears' and Schrader's conduct. Is it not reasonable to assume that Sears and Schrader, laboring under the impression that their former employer was in effect selling its business to a stranger and feeling that they owed no particular duty to the proposed new owner of that business, decided to assert claims with respect to their inventions made while in the employ of intervener-appellant which, in the absence of such sale, they would not have dared to assert against intervener-appellant, in the light of the circumstances under which these inventions were made?

May we again ask how, in the face of appellee's claim that Sears and Schrader were not obligated to assign inventions or patent rights, that in the shopright instrument executed by Schrader [Pltf. Ex. D, R. 181], Schrader actually does assign patent rights to a certain

invention conceived by him while in intervener-appellant's employ?

We again submit that the findings in this case are clearly erroneous for the reason that a consideration of "the entire evidence" must leave one with a definite and firm conviction that a mistake has been made by the trial court. We earnestly submit that the judgment should be reversed.

Respectfully submitted,

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